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Idaho Department of Agriculture

Management Report on Internal Control

Issued: October 23, 2003
Fiscal Year: 2000, 2001, and 2002



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF AGRICULTURE

PURPOSE AND SCOPE. In planning and making our audit of the statewide basic financial statements, we performed certain audit procedures to evaluate the effectiveness of the Idaho Department of Agriculture's internal control design and operation. Consequently, the limited scope of our procedures does not allow us to give an opinion on the Department's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed.

Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. This evaluation, together with other evaluations and various audit procedures applied at other agencies, allows us to express an opinion on the statewide basic financial statements prepared by the State Controller's Office.

CONCLUSION. The eight findings and recommendations noted as a result of applying the audit procedures referred to above, if addressed, would improve and strengthen the Department's internal control structure and operating efficiency. These matters are discussed in the findings and recommendations section.

The Department stated that it has already started implementing some of the recommendations. We commend the Department for its immediate response and efforts to correct the issues noted in this report.

FINDINGS AND RECOMMENDATIONS. The findings and recommendations contained in this report are summarized below:

1. The Department does not always complete product label reviews for commercial feed and fertilizer products in a timely manner. Idaho Code, Sections 22-605, 22-2205, and 25-2718 state that feed and fertilizer (including soil enhancements) products will be registered before being sold or distributed in Idaho. Department records show that many companies' products are not reviewed and registered even though the companies have submitted registration fees. For example, there are 141 commercial feed companies that have paid registration fees totaling \$47,045 to register about 2,500 products, and 147 commercial fertilizer companies that have paid registration fees totaling \$26,990, that have yet to have their products registered. Some of the registrations were still not completed even though the fees were paid six months earlier. We believe the products are not registered in a timely manner because of inadequate management reports to track applications and fees, and inadequate staffing during peak registration periods.
We recommend that the Department improve its computerized registration process so that management can obtain needed reports to monitor and complete reviews in a timely manner. We also recommend that the Department evaluate workloads and consider the need to reassign staff or hire part-time help, especially during peak registration periods.

2. The Department does not monitor and collect all Commodity Indemnity Fund assessments. The Commodity Indemnity Fund receives producer assessments collected by warehouses and dealers (hereinafter referred to as "warehouses") and remitted to the Department on a quarterly basis. The assessments are used to pay producer claims should a warehouse fail. Claims paid in fiscal years 2000 through 2002 totaled \$4.8 million.

The Department's monitoring of assessments should be improved. The following explains:

- Seven warehouses did not submit quarterly assessment reports in calendar year 2002. After we requested that the Department contact these warehouses, the Department did so and received assessments totaling \$22,000.
- Warehouse overpayments of assessments, some as far back as 1997, have not been investigated or otherwise resolved by the Department.
- The Department did not follow up or consistently assess late payment penalties on 43 of 66 warehouses that remitted late assessments during calendar year 2002, some of which were up to four months past due.

We recommend that the Department develop procedures regarding notification and collection of past due assessments and penalties, including obtaining the needed management reports to monitor the collection of assessments.

3. The bonded warehouse licensing and examinations are not always completed in a timely manner. The Bonded Warehouse Section is responsible for licensing and examining warehouses that provide storage and marketing services to commodity growers. The licensing process and examinations help provide assurance to growers that they will receive payment for their commodities.

Some warehouses are operating without fulfilling all licensure requirements, and examinations have not been made in a timely manner. The following explains:

- At least eight warehouses did not submit financial statements within 90 days after year-end as required by law, and members of the Department's staff could not explain why one warehouse license was suspended for not submitting financial statements and others were not.
- Twenty-three of 64 warehouses were not examined in calendar year 2002. Of these 23, two had not been examined in the past two years, and two others had not been examined in the past three years.
- The Department was unable to provide office reviews, which are summary examination results, for two examinations recorded as having been completed. One office review indicated that a warehouse had examination issues, but there was no documentation to show that the warehouse corrected the issues. Also, examination workpapers do not show how the work was completed or what was included in the examination.

We recommend that the Department complete the development of policies and procedures for conducting examinations and ensuring examination workpapers show what work is completed. The procedures should include obtaining the necessary management reports to ensure licensing requirements are met.

4. The Department did not follow State fiscal policies when it established and used a bank account for a national conference it hosted. In July 2000, the Department hosted the annual conference for North American Agricultural Marketing Officials and deposited all receipts into a private bank account established for the conference. Members of the Department's staff completed the accounting and administration for the conference.

The Department did not notify the State Treasurer or the State Controller that the bank account was opened, as required by a State fiscal policy that is not well known among State agencies. However, in January 2002, the Department notified the State Controller and Legislative Services that the bank account was closed. Until the bank account was closed, the Department spent about \$6,500 on various activities that were not conference related. Since Department staff worked on the conference, we believe it would have been better to deposit the \$6,500 of excess cash into a State fund.

We recommend that the Department comply with the fiscal policies of the State Controller's Office regarding reporting the existence of such accounts and closing the accounts in a timely manner. (In a separate letter to the State Controller's Office, we will recommend that the fiscal policy be reviewed regarding such conferences, and consider (1) the State's liability; (2) accounting and records that need to be completed and retained; (3) the disposition of remaining cash balances; and (4) the communication of the policy requirements to State agencies.

5. The Department is not monitoring the program and financial activities of the *Agriculture in the Classroom* contract manager. The Department hired a contractor to administer the *Agriculture in the Classroom* program. The program's objectives are to provide students (kindergarten through grade 12) with a better understanding of the role agriculture plays in our economy. As explained below, and in the prior report, the Department's monitoring of the contractor's activities needs to be improved.

- The contractor collects about \$30,000 in miscellaneous program revenue each year, but deposits the money in a private bank account instead of in a State fund. The Department receives no supporting documentation to show that all money that should be deposited is deposited. Furthermore, depositing money into a private bank account may not be in accordance with Idaho Code, Section 57-815(2), which states, "The State Treasurer shall invest the idle moneys in the [State] account."
- The contractor makes all program expenditures, but the Department does not receive supporting documentation for most transactions. In fiscal year 2002, program expenditures (excluding the amount paid to the contractor) were reported as \$41,700. The contractor provided support for only \$10,300 of those expenditures. The Department does not specify which expenditures the contractor is to provide support for, nor has the Department requested supporting documentation for other program expenditures.
- The Department should receive reports and supporting documentation to show whether the contractor is meeting the program objectives in accordance with the contract. However, the Department cannot provide any information to show that reports were submitted or show that it was monitoring the program.

We recommend that the Department improve its monitoring of the program and financial activities of the contractor. Also, since virtually no program expenditures are made from the dedicated fund, and the cash balance in this fund is about \$66,000, we recommend that the Department consider

requesting higher spending authority from the dedicated fund to temporarily reduce reliance on General Fund appropriations.

6. The Department's internal control over disbursements can be improved. A good internal control system for disbursements should include supervisors reviewing and approving accounting transactions and supporting documentation for all Department expenditures and sending warrants directly to the vendors. As explained below, controls over disbursements can be improved.

- Supporting documentation for State purchasing card (P-card) transactions is not always adequate to ensure that expenditures are proper, and supervisors do not always approve expenditures after receiving supporting documentation from the P-card holder.
- Employees use supervisors' signature stamps to approve transactions and authorize travel. Some of these stamps are not secured and many employees have access to them.
- In fiscal year 2002, the Department had the State Controller's Office send about 2,800 warrants (checks) back to the Department instead of mailing them directly to the vendor. Sending warrants to the Department instead of directly to the vendor increases the risk that money will be misappropriated.
- Time sheets showing leave taken are not always signed by employees, nor does the Department always retain documentation showing that employees verified leave taken. As a result, the Department may be at risk if an employee subsequently claims leave was not taken.

We recommend that the Department improve controls over disbursements by:

- Ensuring that supervisors approve all P-card purchase transactions and that documentation provides adequate explanations.
- Requiring supervisors to review and approve transactions and discontinuing the use of signature stamps.
- Requesting that the State Controller's Office send warrants directly to vendors whenever possible.
- Ensuring documentation is retained to show employees agree with Department leave records.

7. Internal controls over miscellaneous receipts are inadequate. A good internal control system for receipts should include accounting for all receipts and licenses issued, restrictively endorsing checks upon receipt, reviewing reports used to monitor receipts, segregating duties, depositing receipts in a timely manner, and monitoring receivables.

Although the amount of the billings and receipts addressed in this finding is not large, the issues noted below are not limited to one section of the Department. That is, we found weaknesses related to receipts in the Bureau of Weights and Measures, Fresh Fruit and Vegetable Bureau, Plant Industries, Animal Health Lab, Fiscal Office, and the Seed lab, in addition to weaknesses addressed in other findings of this report. Good internal controls will help ensure that money is not misappropriated and that employees are protected from potential allegations of wrongdoing. The following lists some internal control weaknesses that should be improved:

- License revenue does not always reconcile with the number of licenses issued. For example, one receipt showed 13 licenses issued, but the amount of money collected was for 16 licenses. There was no explanation for the difference. Department records also show fees collected for licenses that were voided and never issued. Fees should not be collected for licenses not issued.
- Some produce dealers have paid license fees as far back as 1997, but never received a license or had their fees refunded by the Department. Currently, although many produce dealers have paid fees, the Department has not reviewed the applications or completed other work to issue or renew licenses. As a result, some produce dealers may be operating without a license.
- Checks are not always restrictively endorsed upon receipt. In some instances, up to three staff members handle checks before they are restrictively endorsed.
- Reports, although generated each month, are not always used to determine the reasonableness of receipts. In one instance, a Department staff member stated that a report showed year-to-date collections, when actually the report far exceeded annual collections because it incorrectly included accumulated receipts for multiple years.
- Although most receipts are deposited in a timely manner, we did find a few that were held for up to one month before being deposited.
- Although not material, we found some receivables that had not been followed up for more than two years. Also, some of the current and past-due receivables were for very small amounts. The cost of processing the invoice and establishing the receivable may exceed the value of these small receivables.
- Some Fresh Fruit and Vegetable account holders have been out of business for more than two years, yet the Department continues to send them monthly billings. The Department had not determined why payment was not made and only learned that the account holders were out of business after we asked the Department to contact them.

We recommend that the Department provide staff training that explains the need to monitor receipts, including but not limited to, agreeing license receipts to licenses issued, restrictively endorsing checks upon receipt, monitoring receipts by reviewing reports, segregating duties, depositing receipts in a timely manner, and monitoring receivables.

8. Monitoring of information technology work is not adequate. A part-time programmer is the sole author of the computer software for the Department's largest revenue generating program (about \$7.5 million annually). The programmer works from his home and has submitted biweekly time sheets, for 10 to 15 hours per pay period, since 1995. The Department's Information Technology (IT) Section does not know when the programmer makes program modifications and has not received program source code documentation from the programmer for more than a year.

We recommend that the IT Section obtain the source code documentation from the part-time programmer and supervise and monitor his work.

PRIOR FINDINGS AND RECOMMENDATIONS. The prior report contained two findings and recommendations. The prior finding regarding compensatory time is closed. The other finding, regarding the *Agriculture in the Classroom* program, is repeated in this audit report.

AGENCY RESPONSE. The Idaho State Department of Agriculture is committed to establishing and maintaining adequate internal controls. We are committed to properly applying and enforcing these established internal controls throughout all of the programs of the Department. We welcome and appreciate the audits of our programs provided by Legislative Services. The current audit concluded in eight findings and recommendations to help improve and strengthen the Department's internal control structure and operating efficiency. In general, we concur with the findings and recommendations of the audit and will implement the recommendations provided and our own additional internal recommendations to properly strengthen the identified weaknesses. As a result of the audit, the internal control structure has been strengthened.

FINANCIAL SUMMARY. During fiscal year 2002, the Department received \$23 million from various fees, licenses, assessments, grants, and a General Fund appropriation of \$10 million. Of the \$31 million the Department disbursed in fiscal year 2002, \$16 million was expended in personnel costs. Although an opinion is not given on the financial data presented in this report, one is given on all State funds in the statewide *Comprehensive Annual Financial Report* that includes the financial data presented here.

Department of Agriculture – Financial Summary

Fiscal Year 2000					
Fund	Beginning Appropriation/ Cash Balance	Plus Receipts	Plus Net Transfers	Less Disbursements	Ending Appropriation/ Cash Balance
General Fund	\$7,056,257.97	\$14,121.23		\$7,065,276.70	\$5,102.50
Indirect Cost Recovery	147,638.69	574,464.67		581,054.96	141,048.40
Agriculture in the Classroom	10,634.68	600.44	\$5,426.87	6,894.70	9,767.29
Agricultural Inspection	278,946.65	1,122,942.85		1,054,958.29	346,931.21
Special Pest Eradication	(15,737.11)		167,135.20	198,706.76	(47,308.67)
Agricultural Fees	2,199,193.30	3,706,750.85		3,594,412.65	2,311,531.50
Sheep/Goat Disease Indemnity	10,181.02	3,936.32		7,350.00	6,767.34
Federal (Grant)	343,339.09	1,201,588.68		1,480,700.10	64,227.67
Seminars and Publications	36,829.77	228,911.18		240,030.97	25,709.98
Fresh Fruit and Vegetable Inspection	2,957,709.22	7,621,017.41		7,648,724.91	2,930,001.72
Development Loans	173,525.11	56,140.85		82,454.90	147,211.06
Commodity Indemnity Fund	5,680,244.34	317,674.55		323,185.64	5,675,733.25
Resource Conservation	2,788,988.30	932,792.34	2,517,835.29	3,881,762.27	2,357,853.66
Total Fund Balances	<u>\$21,667,751.03</u>	<u>\$15,780,941.37</u>	<u>\$2,690,397.36</u>	<u>\$26,165,512.85</u>	<u>\$13,973,576.91</u>

Fiscal Year 2001

Fund	Beginning Appropriation/ Cash Balance	Plus Receipts	Plus Net Transfers	Less Disbursements	Ending Appropriation/ Cash Balance
General Fund	\$10,006,500.00	\$6,646.33		\$10,013,146.33	
Indirect Cost Recovery	141,048.40	598,354.93		571,845.21	\$167,558.12
Agriculture in the Classroom	9,767.29	902.02	\$16,131.00	795.00	26,005.31
Agricultural Inspection	346,931.21	1,056,091.18		996,701.84	406,320.55
Special Pest Eradication	(47,308.67)	(5,726.11)	163,823.92	130,325.93	(19,536.79)
Agricultural Fees	2,311,531.50	3,982,422.35	(1,200,000.00)	3,645,481.03	1,448,472.82
Sheep/Goat Disease Indemnity	6,767.34	3,864.38		1,350.00	9,281.72
Federal (Grant)	64,227.67	2,061,190.81	1,200,000.00	3,222,277.04	103,141.44
Seminars and Publications	25,709.98	239,398.53		227,490.96	37,617.55
Fresh Fruit and Vegetable Inspection	2,930,001.72	7,730,529.01		7,220,888.79	3,439,641.94
Development Loans	147,211.06	39,246.13		79,318.29	107,138.90
Commodity Indemnity Fund	5,674,733.25	438,035.37		2,690,303.69	3,422,464.93
Resource Conservation	2,357,853.66	1,129,159.78		3,009,567.68	477,445.76
Total Fund Balances	<u>\$23,974,974.41</u>	<u>\$17,280,114.71</u>	<u>\$179,954.92</u>	<u>\$31,809,491.79</u>	<u>\$9,625,552.25</u>

Fiscal Year 2002

Fund	Beginning Appropriation/ Cash Balance	Plus Receipts	Plus Net Transfers	Less Disbursements	Ending Appropriation/ Cash Balance
General Fund	\$10,661,150.00	\$8,482.60		\$10,652,632.59	\$17,000.01
Indirect Cost Recovery	167,558.12	747,747.51		635,704.49	279,601.14
Agriculture in the Classroom	26,005.31	12,211.95	\$20,545.00	3,464.00	55,298.26
Agricultural Inspection	406,320.55	988,322.49		1,091,890.44	302,752.60
Special Pest Eradication	(19,536.79)	11,858.99	157,329.90	279,042.60	(129,390.50)
Agricultural Fees	1,448,472.82	4,544,793.75	1,200,000.00	4,392,986.68	2,800,279.89
Sheep/Goat Disease Indemnity	9,281.72	3,834.84		750.00	12,366.56
Federal (Grant)	103,141.44	7,418,098.26	(1,200,000.00)	3,816,140.05	2,505,099.65
Seminars and Publications	37,617.55	210,665.04		221,467.78	26,814.81
Fresh Fruit and Vegetable Inspection	3,439,641.94	6,751,186.27		6,788,778.91	3,402,049.30
Development Loans	107,138.90	41,131.35		6,138.14	142,132.11
Commodity Indemnity Fund	3,422,464.93	708,855.71		2,299,573.01	1,831,747.63
Resource Conservation	447,445.76	1,444,487.84		633,264.48	1,258,669.12
Total Fund Balances	<u>\$20,256,702.25</u>	<u>\$22,891,676.60</u>	<u>\$177,874.90</u>	<u>\$30,821,833.17</u>	<u>\$12,504,420.58</u>

OTHER ISSUES. In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Agriculture and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by the director, Pat Takasugi, and his staff.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:

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For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.